

Assessment of the responses received for Baltic Transmission System Operators' Public Consultation on "Principles for transmission capacity management in common Baltic gas market", "Analysis on Alternatives for the Establishment of Market Area Manager" and „Concept Model for the Coordinated Balancing Zone“

2018-01-18

1. Principles for transmission capacity management in common Baltic gas market

Question 1.1	
<p><b>a) Do you agree with the principles and the list of capacity products proposed for common Baltic gas market zone on slides 9-11? Please provide your views on this section.</b></p> <p><b>b) Do you agree that all standard capacity products available on IPs would be offered on entry-exit points other than IPs?</b></p> <p><b>c) Do you have proposals for the provided capacity allocation calendar?</b></p> <p><b>d) Do you agree that on non-congested entry-exit points First Come First Served capacity allocation method would be used?</b></p> <p><b>e) Do you have any other proposals for the transmission capacity management in common Baltic gas market?</b></p>	
Response	Assessment of responses
<p>Stakeholder no. 1</p> <p>a) Agree.</p> <p>b) Agree.</p> <p>c) Until the integration with Western Europe market is completed (until GIPL project is finished), gas year could be from January to January.</p> <p>d) Agree.</p> <p>e) -</p>	<p>Will be taken into account.</p> <p>At the moment 3 different gas year periods are applied in Baltic countries: in Lithuania – January-January; in Latvia – April-April; in Estonia – October-October. In common entry-exit system gas year period has to be unified and it is reasonable to implement the gas year period which would be in line with NC CAM and which will be used after the full integration with EU gas system.</p>
<p>Stakeholder no 2.</p> <p>a) Yes, assuming the question does not apply to domestic exit points</p> <p>b) Yes, assuming the question does not apply to domestic exit points</p> <p>c) No</p> <p>d) Yes</p> <p>e) No</p>	<p>Regarding domestic exit points see comment for question No 1.2.</p>

<p>Stakeholder no 3.</p> <p>The capacity allocation principles should be in line with NC CAM. The studies does not specified which: 1) the implicit or 2) auction capacity allocation option will be chosen by TSOs in future.</p> <p>The TSOs should make a comparison between implicit capacity allocation and capacity auction as well as between the existing platforms (PRISMA, GSA, RBP and ect.) and MAM to determine the best solution.</p>	<p>The only IP in common Baltic-Finnish entry-exit zone, where NC CAM shall apply, is GIPL IP (and Balticconnector as long Finland has not made decision to join), unless any of Baltic/Finnish NRA/NRAs will decide on applying NC CAM to point with third countries. In the slide 9 of the study on Principles for transmission capacity management in common Baltic gas market (hereinafter – capacity management study) it is proposed that capacity allocation at GIPL and Balticconnector, if Finland does not make the decision to join merged balancing zone, must be fully in line with NC CAM requirements. Also in slide 9 of this study, it is proposed that all capacity products must be auctioned.</p> <p>Implicit capacity allocation could be used only if two adjacent TSOs and NRAs agrees to apply such a method. Also according to NC CAM adjacent TSOs shall reach a contractual agreement to use a single booking platform to offer capacity on the two sides of their respective IPs. The final decision to use auctioning or implicit capacity allocation and which capacity booking platform should be used, will have to be done together with TSO of Polish TSO GAZ-SYSTEM and Polish NRA URE, upon reaching an interconnection agreement with GAZ-SYSTEM (expected in 2021). Currently, Poland is not involved in the process of creation of common balancing zone in Baltic-Finnish gas markets.. Auctioning or implicit capacity allocation should be used at Balticconnector, as long as Finland hasn't made a decision to join merged balancing zone. This should be dealt with between TSOs and NRAs.</p>
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<p><b>Question 1.2 - Regulation does not define how the tariff can be applied for domestic points and if the tariff should be capacity or energy based. <i>The Principles for transmission capacity management in common Baltic gas market</i> describes different schemes of capacity booking which could be applied for domestic points:</b></p> <p><b>a) No capacity is allocated, only energy based tariff is applied;</b></p> <p><b>b) The capacity is booked by network user;</b></p> <p><b>c) The capacity is booked by the connected party (DSOs or directly connected consumption sites owners).</b></p> <p><b>Please indicate whether you would prefer option a), b) or c) with your reasoning. Please provide your detailed views on this section.</b></p>	
Response	Assessment of responses
<p>Stakeholder no. 1</p> <p>The cost of infrastructure should be allocated socially fair between network users who are using transportation system and those who have right to use it but chooses alternative sources of energy at some point in time. <b>Option B</b> allows to do that.</p>	<p>Currently the different practices of capacity booking are in place in the region. The response will be considered when making the final setup of capacity booking procedures for domestic exit points.</p>

<p>Stakeholder no. 2</p> <p>Preferred <b>option is A</b>. With addition, that respective fee will be collected from DSO or directly connected consumption sites owner.</p> <p>Selected option simplifies the balancing process for suppliers.</p>	
<p>Stakeholder no. 4</p> <p>The consultation document evaluates the application of capacity booking and allocation procedure to system exit points for end consumption. Although the regulation of the European Union does not determine the application of procedure for capacity service booking with regards to the exit point of the system for end consumption, we consider that when establishing common principles for capacity booking procedure on the common Baltic market, the exit point to end consumption should be left under the control of the national regulation, within the framework of which the national regulators should be entitled to determine what regulation of tariffs to apply for end consumption exit points. We consider that this aspect of regulation is not crucial, when establishing a common market, because the need to harmonise the natural gas trade procedures is potentially more significant</p>	

<b>Question 1.3 - Do you see a need to use all congestion management methods as set in regulation also for non-IPs? Please provide your detailed views on this section.</b>	
<b>Response</b>	<b>Assessment of responses</b>
<p>Stakeholder no. 1</p> <p>No.</p>	<p>Will be taken into account.</p>
<p>Stakeholder no. 2</p> <p>No. The proposed selection of congestion management methods on slide 11 for the all entry exit points with 3rd countries, LNG and UGS is sufficient.</p>	
<p>Stakeholder no. 3</p> <p>The main TSOs proposal is to establish the additional fee for overrun capacity to avoid the congestions, but in VTP study the TSOs do not provide the information about the possibility of congestions in region, in which part of transmission system the highest possibility of congestion and ect. We propose to evaluate the congestion possibility in our region and prepare the detailed congestion management on entry points approach/study.</p>	<p>To manage possible congestions it is proposed to use congestion management procedures which are specified in Regulation 715/2009. In the slide 13 of the capacity management study it is proposed that in common entry-exit zone at IPs all congestion management procedures, specified in Annex I of Regulation 715/2009, should be applied. Also it is proposed that at all other entry—exit points procedure of surrender of contracted capacity, secondary capacity trading and interruptible capacities should be available. Based on current technical capacity and its usage on entry points from third countries, no long-term services congestions are expected in normal state, while on other than IPs entry points (from UGS, LNG terminal) the adequate entry capacity</p>

	<p>matching the capacities of connected infrastructures are created and no transmission capacity related congestion expected as well. For short-term services congestion proposed measures are sufficient to guarantee the equal access to the network on entry points.</p> <p>The fee for overrun of capacity is proposed to apply only at domestic exit points where capacity is booked (if so decided by relevant TSO and NRA). Main goal to apply this fee is to motivate network users to book the capacity and so provide information for expected gas flows, as in domestic exit points the nominations (which provides a basis to determine the flows on other points) are not provided. Without adequate capacity booking, the actual flows in domestic exit points may destabilize the pressure levels in transmission systems.</p>
<p>Stakeholder no. 5</p> <p>The provisions determined in the section “Capacity products, allocation timing at entry/exit points with 3rd countries, LNG and UGS (1)”, in the last paragraph of page 10 of the public consultation document “At least 10 % of the existing technical capacity should first be offered no earlier than the annual quarterly capacity products. Exception to this rule could be applied at entry/exit points with 3rd countries”, according to the opinion of Stakeholder no. 5, is not a correct interpretation of Article 8 (7)(b) of the Commission Regulation (EU) 2017/459 of 16 March 2017 establishing a network code on capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) No 984/2013 (hereinafter - Regulation 2017/459), because, according to the opinion of Stakeholder no. 5, it has been supplemented with the information conflicting with Article 2(1) of this Regulation.</p> <p>Namely, Article 8(7)(b) of the Regulation 2017/459 stipulates that any capacity set aside pursuant to paragraph 6 shall be offered, subject to the following provision - a further amount at least equal to 10 % of the existing technical capacity at each interconnection point shall first be offered no earlier than the annual quarterly capacity auction as provided for in Article 12, held in accordance with the auction calendar during the gas year preceding the start of the relevant gas year.</p> <p>At the same time, Article 2(1) of the Regulation 2017/459, inter alia, clearly determines that this Regulation shall apply to interconnection points and it may also apply to entry points from and exit points to third countries, subject to the decision of the relevant national regulatory authority. This paragraph is continued with a list of exceptions where this Regulation shall not apply to, however there is no special exception determined for third countries.</p> <p>Taking into account the above mentioned, according to the opinion of Stakeholder 5 it should be necessary to make the relevant corrections in the last paragraph of page 10 of the consultation document, without determining special exceptions for application of the Article to entry and exit points to third countries, because currently the national regulatory authority has not adopted such a decision and therefore the information provided in the document is prima facie misleading to the reader thereof.</p> <p>It is said in page 17 of the document, in section “Fees for capacity overrun in domestic exit points” that in case of overrun of the reserved capacity it is necessary to pay additional fee. Besides, a fee is</p>	<p>According to NC CAM article No. 2, this regulation should apply to interconnection points. It might also apply to entry exit points to the third countries, subject to decision to relevant NRAs. When the proposal was provided to NRAs in RGMCG group and during public consultations NRAs did not object TSOs’ proposal to apply NC CAM only to interconnection points.</p> <p>3 percent value was used for long time in Lithuanian transmission system and acts as a tolerance level for which overrun fee is not applied. Some TSOs in Europe uses tolerance levels as well. Based on Lithuanian experience small overruns do not expose threat to the functioning of the transmission system.</p>

<p>stipulated, which should be paid by a network user if the capacity overrun is by 3% less or more than the reserved capacity. Stakeholder 5 asks PSO to include in the public consultation document a reference or to provide explanation regarding the fact, from where the 3% value for capacity overrun is applied and the relevant amount of the additional fee arising from it.</p>	
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<p><b>Question 1.4</b></p> <p>a) Do you support TSOs proposal that MAM could also act as a Capacity Booking Platform for capacity at entry/exit points in addition of MAM other core functions?</p> <p>b) Do you have a preference regarding allocating capacity on entry-exit points: (1) capacity would be allocated on joint portal (capacity booking platform) operated by MAM, or (2) each TSO would allocate capacity of their country entry-exit points on their own capacity booking platforms?</p>	
<p><b>Response</b></p>	<p><b>Assessment of responses</b></p>
<p>Stakeholder no. 1 The system should be united and simple (for Network users and TSOs). We support least costly and most efficiently functioning system.</p>	<p>Will be taken into account.</p>
<p>Stakeholder no. 2 a) Yes b) Preferred option is (1).</p>	

<p><b>Question 1.5 General comments on <i>The Principles for transmission capacity management in common Baltic gas market</i></b></p>	
<p><b>Response</b></p>	<p><b>Assessment of responses</b></p>
<p>Stakeholder no. 1  In addition, we think that during transitional period tariffs at interconnection points (LT-LV, LV-EE) should be removed or minimized drastically. Currently these tariffs set a barrier for market development, on the other hand implementing tariffs reduction now would create opportunity for the market to change naturally without experiencing abrupt changes.</p>	<p>Will be taken into account  Based on current guidelines from NRAs, TSOs will develop the framework allowing to have zero tariffs at interconnection points between Baltic States from 1 January 2019.</p>

<p>We believe that pricing in common market's domestic exit points should be unified in all countries.</p> <p>In a common market all consumers will have the same access conditions to use existing infrastructure. Therefore maximum effort should be taken to socialize the costs incurring in the common market. The consumption capacities model will possibly discriminate consumers in Lithuanian and won't fulfil it's initial function.</p>	<p>Currently the different practices of capacity booking are in place in the region. The response will be considered when making the final setup of capacity booking procedures for domestic exit points.</p> <p>The topic of socialisation of costs of other infrastructures (LNG terminal, Underground Gas Storage) is not under the remit of TSOs. Ministries and NRAs are dealing with this topic.</p>
<p>Stakeholder no. 4</p> <p>Although Stakeholder no. 4 supports the establishment of a common Baltic states natural gas market and recommendations for harmonisation of processes, we consider that the first real step to the common market would be commitment of regulators of the Baltic states to review and harmonise the application of the current cross-country entry/exit point tariffs by bringing it closer to zero.</p>	<p>How the point will be administrated and how costs will be distributed will have to be decided by Latvian and Estonian NRAs. In any case the capacity on that point will be booked and transportation arranged like at other entry points with 3rd countries. The entry tariffs also should be set in the harmonized way as to other entry points to the zone.</p>
<p>Stakeholder no. 4</p> <p>Already in July of the current year Stakeholder 4, when commenting the consultation document, jointly prepared by regulators of the Baltic states, regarding the principles of operation of the natural gas transmission system in the Baltic states, highlighted the issue of the main pipeline Misso-Korneti and the issue of the operational control rights of the Misso interconnection point accordingly. The above mentioned system point and accordingly also the section of pipelines in the length of 20 km is being used only for the needs of the Latvian natural gas system. We consider that, upon establishing a common Baltic States natural gas market, the management of this system element should be primary agreed. According to the opinion of Stakeholder 4 with regards to Misso point, such a solution should be established that would enable the Latvian natural gas system operator to control the above mentioned point, including to providing it with the right to receive a fee for provision of capacity services and determining an obligation to compensate to the Estonian transmission system operator for expenses for provision of natural gas flow of the above mentioned pipeline section.</p>	<p>Will be taken into account.</p>
<p>Stakeholder no. 5</p> <p>According to the opinion of Stakeholder 5, in page 6 of the public consultation document, in section "Legislative framework and regulation", it would be correct to refer not only to the Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005 (hereinafter - Regulation 715/2009), but also to clearly indicate that a part of references (for example, "3.1.2 (c4) (...)", "3.1.2 (h)(...)", "Annex 1, Paragraph 3.1.2 (m) (...)") refer to Annex I of the consolidated version of Regulation 715/2009, approved under the Commission Decision of 30 April 2015 (EU) 2015/715.</p>	

## 2. Analysis on Alternatives for the Establishment of Market Area Manager

<b>Question 2.1</b>	
<p><b>a) Do you have a preference for any of the mentioned MAM alternatives? If yes, please specify why?</b></p> <p><b>b) Please provide your views on this section for the options preferred by the TSOs.</b></p> <p><b>c) Is there any other aspects, in your opinion, which should be considered when choosing a particular MAM alternative?</b></p>	
<b>Response</b>	<b>Assessment of responses</b>
<p>Stakeholder no. 1 The system should be united and simple (for network users and operators). We support least costly system.</p>	<p>Costs will be taken into account when choosing the final MAM option, also taking into account benefits of the alternatives.</p> <p>For TSO-TSO cooperation model:</p> <p>a) BPM signs the balance agreement with one TSO</p> <p>b) Imbalance payments shall be performed by this TSO and based on local taxes.</p>
<p>Stakeholder no. 2</p> <p>a) No.</p> <p>b) Even if there will be a common E/E zone there will remain separate national tax and statistics systems. For example, if imbalance payment invoice is presented to a network user registered in country A will it be considered as import of gas to country A or not.</p> <p>c) No other aspects to consider</p>	
<p>Stakeholder no. 3</p> <p>The studies include the pros and cons of all MAM alternatives for Common Baltic gas market, but does not provide the information about MAM regulation and supervision aspects (which NRA should provide regulatory framework for the MAM and supervise the MAM - all NRAs, the chosen NRA and ect.?).</p> <p>TSO-TSO cooperation model with MAM as IT platform provides national flexibility for legal framework and data exchange formats as well as NRAs supervision and could be implemented. TSO-TSO cooperation model could be considered and implemented as a temporary solution. In the future, after GIPL and Balticconnector commissioning, it might be useful to establish separate role-entity for MAM owned by TSOs because considering an example in electricity sector (Nord Pool) the implementation of MAM could be much easier.</p> <p>For NRAs final decision TSOs should prepare the cost -benefit analysis of TSO-TSO cooperation and MAM solutions.</p>	<p>The TSOs will provide for NRAs decision making more detailed comparison of different options, also supplemented with regulatory and supervision aspects. It should also be mentioned that NordPool is not fulfilling the market operator tasks in electricity sector but is an electricity exchange (as GET Baltic in gas) and therefore the comparison with MAM is not relevant.</p>
<p>Stakeholder no. 4</p>	<p>Will be taken into account.</p>

Stakeholder 4, upon becoming acquainted with the assessment performed by transmission operators regarding regulation of the responsible subject of the market area, would like to provide a support to the alternative solution, where the regulation of the responsible subject of the market area is established on the basis of joint cooperation model of transmission system operators. We consider that the separated status for basic functions of transmission operators, if segments of transmission operator functions (capacity booking, allocation and capacity nomination) are separated into separate legal subjects, may cause circumstances that are not promoting development of the market, therefore the responsible functionality of the market zone should be linked with other services of the transmission operator, which may be provided by cooperation model of operators. Besides, when establishing a new legal person owned by operators, there may be concerns regarding functional efficiency, when managing the new subject, and the issue of costs and funding of the new legal person may be a significant aspect.



### 3. Concept Model for the Coordinated Balancing Zone

<b>Question 3.1 Do you agree that the proposed target model for regional balancing zone should be achieved? Please provide your views on this section.</b>	
<b>Response</b>	<b>Assessment of responses</b>
<p>Stakeholder no. 1 We think that common balancing zone would help suppliers to implement their duties smoother and optimize costs. As well, it would reduce entry to the market barriers.</p>	<p>Will be taken into account that the current proposal for common balancing zone is supported.</p> <p>Also in later stages of the development work the detailed responsibilities of the forecasting party will be addressed</p>
<p>Stakeholder no.2 Yes, the target model should be achieved. The responsibilities of the forecasting party (FP) should be addressed in more detailed manner. <i>The national regulatory authority shall designate the forecasting party in a balancing zone after prior consultation with the transmission system operators and distribution system operators concerned. (Article 39, (5), BAL NC)</i></p>	

<b>Question 3.2 Do you agree that all functionalities described shall be managed between TSOs centrally at least via single web interface solution? Please provide your detailed views on this section. Do you see any other functions that should be centrally managed?</b>	
<b>Response</b>	<b>Assessment of responses</b>
<p>Stakeholder no.1 As we mentioned in the previous answer of question 1.4, it should be taken into account what costs and what benefits it would bring.</p>	<p>Will be taken into account that the current proposal functionalities attribution is supported.</p> <p>Based on BAL NC : The NRA shall designate the forecasting parties in each of the countries in a balancing zone after prior consultation with the transmission system operators and distribution system operators concerned. The forecasting party shall be responsible for forecasting a network user's non daily metered off-takes and where appropriate its subsequent allocation. It may be a transmission system operator, distribution system operator or a third party.</p>
<p>Stakeholder no. 2 Yes, all functionalities described shall be managed between TSOs centrally at least via single web interface solution  Responsibilities of Forecasting Party could also be managed centrally. The FP has responsibility of daily data provision to TSOs and it will be implemented via central IT-platform. At the same, the input data used by FP is also collected via the central IT platform.</p>	

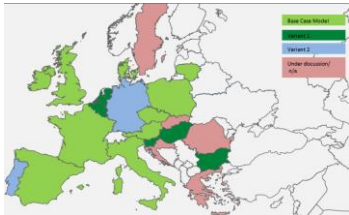
**Question 3.3 Concept model (slide 14) describes the preliminary options for possible data exchange solution between market participants and TSOs (MAM): Option A or B. Please provide your views on this section for both options.**

Response	Assessment of responses
<p>Stakeholder no. 1 We believe that <b>option B</b> enables network users to provide additional services when managing client's risks and earn from that (double benefit).</p>	<p>Support for option B has been taken into account for further analyses</p> <p>Network user could provide relevant data to TSO by himself or could give an empowerment to its Balance Portfolio Manager (BPM) to book, nominate and re-nominate the capacity for the network user. Network user could become BPM by signing the balance agreement with TSO (or MAM) or could manage the balance responsibility requirement via some other BPM (agreement with BPM).</p>
<p>Stakeholder no. 2  Preferred <b>option is B</b>. The network user is allowed to submit trade notifications and nominations only if one has entered into balancing agreement with TSO and by that implementing also the role of BPM (NU=BPM). If system user, (has no capacity booking or balancing contracts with TSO or MAM) intends to perform trades at the exchange or OTC, then one should do it after prior consent by BPM with whom the system user has signed balance management contract</p>	
<p>Stakeholder no. 3  According to legislation requirements, the network user should be responsible for capacity booking, nomination and re-nomination.</p>	

**Question 3.4 Please provide your views for short-term products that should be available for day ahead and within day purposes.**

Response	Assessment of responses
<p>Stakeholder no. 1 In our opinion for balancing purposes there should be used only those products that are technically required to ensure the balance of the system and it's safe exploitation (to avoid unnecessary products that creates additional obligations for network users).</p>	<p>Will be taken into account when developing the suitable products used for balancing purposes.</p>
<p>Stakeholder no. 2  No doubt, the Title Balancing product is essential to have. The daily and within day locational products should also be in place as tool for redirection of gas flows during maintenance works.</p>	
<p>Stakeholder no. 3</p>	

<p>Since regional gas system is huge and complicated exact entry/exit point must be known. Therefore at least location products should be used.</p>	
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<b>Question 3.5 Do you agree that “Base case” model shall be implemented for Baltic gas systems for non-daily meter data allocation?</b>	
<b>Response</b>	<b>Assessment of responses</b>
<p>Stakeholder no. 1            Base case model could be applied, however the difference between forecasts and actual data of non-daily metered sites should not be charged with additional fees (small adjustment and etc.). This difference should be bought/sold according to that period’s market price. Forecasting party should ensure high quality forecasting mechanism and be interested (by applying financial means: charges and incentives) in it’s constant improvement.</p>	<p>There are pros and cons for each model. Base case is proposed due to current practices implemented in the Baltics already. When developing detailed balancing rules it will be analysed how the differences between forecasts and actual data of non-daily metered sites should be cleared in order not to penalize network users.</p>
<p>Stakeholder no. 2             No. We do not agree.             The base case model with final allocation at M+X basis does not enable network users to balance their portfolios in an efficient way. M+X results in high uncertainty in regard final imbalance quantities and does not motivate network users to within-day trading. It is difficult for the network user to set volumes in daily bids if the final imbalance quantity for the gas day can differ from the in-day forecast in great extent.</p>	<p>There are different solutions implemented in Europe and good updated overview and analyses is also published by ACER and ENTSOG. Currently most of EU systems including Lithuania and Latvia have implemented the base case model, but we take into account the request for deeper analyse of options.</p>  <p>The map shows the geographical distribution of gas systems across Europe. A legend indicates three categories: 'Base Case Model' (green), 'M+X' (blue), and 'Under discussion' (red). Green areas cover most of Western and Central Europe, including the UK, France, Germany, and Italy. Blue areas are concentrated in the Baltic region (Lithuania, Latvia, Estonia). Red areas are scattered in Eastern Europe and parts of the Balkans.</p>

<b>Question 3.6 General comments on Concept Model for the Coordinated Balancing Zone</b>	
<b>Response</b>	<b>Assessment of responses</b>
<p>Stakeholder no. 2             As well, we would like to pay your attention to data exchange process between DSO/TSO/MAM and suppliers. It should be smooth, effective and information updated as often as possible.             Furthermore we suggest to consider possibility to use Linepack (or create a similar substitute) as a balancing tool. If system is not in imbalance, it would be fair, that network users could have ability to manage their individual imbalances using this tool.</p>	<p>Network users could manage their balancing portfolios trading intraday products in the regional gas exchange. as well as using various other balancing services (the flexibility provided by Incukalns UGS, to have balancing contract with BPM, etc.)</p> <p>Possibility to provide the linepack services will be analysed by TSOs in the future, after the regional market merger, and having information about the remaining (if any) flexibility of transmission systems to provide commercial storage/balancing services.</p>